

**Salem Township  
Washtenaw County, Michigan**

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**Financial Report  
with Supplemental Information  
March 31, 2008**

# Salem Township

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## Independent Auditor's Report

To the Board of Trustees  
Salem Township  
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem Township, Washtenaw County, Michigan (the "Township") as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Salem Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem Township as of March 31, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees  
Salem Township

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Salem Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moreau, PLLC*

July 28, 2008

# **Salem Township**

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## **Management's Discussion and Analysis**

Our discussion and analysis of Salem Township, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2008. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlight for the year ended March 31, 2008:

- The Township continues to have continued financial improvement due to increased revenues and controlling expenditures that are comparable to the prior fiscal year.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of Salem Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

# Salem Township

## Management's Discussion and Analysis (Continued)

### Salem Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Current and other assets	\$ 7,140	\$ 6,430	\$ 1,916	\$ 2,038	\$ 9,056	\$ 8,468
Capital assets	<u>2,306</u>	<u>2,247</u>	<u>2,393</u>	<u>2,461</u>	<u>4,699</u>	<u>4,708</u>
Total assets	9,446	8,677	4,309	4,499	13,755	13,176
<b>Liabilities</b>						
Current liabilities	27	6	176	172	203	178
Long-term liabilities	<u>14</u>	<u>13</u>	<u>1,680</u>	<u>1,850</u>	<u>1,694</u>	<u>1,863</u>
Total liabilities	<u>41</u>	<u>19</u>	<u>1,856</u>	<u>2,022</u>	<u>1,897</u>	<u>2,041</u>
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	2,305	2,247	1,001	935	3,306	3,182
Restricted	3	3	-	-	3	3
Unrestricted	<u>7,097</u>	<u>6,408</u>	<u>1,452</u>	<u>1,542</u>	<u>8,549</u>	<u>7,950</u>
Total net assets	<u>\$ 9,405</u>	<u>\$ 8,658</u>	<u>\$ 2,453</u>	<u>\$ 2,477</u>	<u>\$ 11,858</u>	<u>\$ 11,135</u>

The Township's combined net assets increased 6.49 percent from a year ago, increasing from \$11.1 million to \$11.9 million. This was a result of two factors: one, a significant increase in revenue due to monies earned from landfill/host community fees, and secondly, the further reduction of long-term liabilities with regular payments to the bond program to pay for the sewer plant expansion. Our total liabilities decreased 7 percent over the past year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$689,000 for the governmental activities. This represents an increase of 11 percent. The current level of unrestricted net assets for our governmental activities stands at \$7.097 million, giving the Township funding reserves that would cover the next four budget years.

# Salem Township

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 89	\$ 192	\$ 95	\$ 90	\$ 184	\$ 282
Capital grants and contributions	-	23	30	28	30	51
General revenue:						
Landfill/Host community fees	1,284	1,090	-	-	1,284	1,090
State-shared revenue	380	378	-	-	380	378
Unrestricted investment earnings	375	359	95	105	470	464
Franchise fees	50	46	-	-	50	46
Miscellaneous	36	17	-	-	36	17
Total revenue	2,214	2,105	220	223	2,434	2,328
<b>Program Expenses</b>						
General government	524	563	-	-	524	563
Public safety	607	431	-	-	607	431
Public works	136	97	-	-	136	97
Community and economic development	199	230	-	-	199	230
Recreation and culture	1	2	-	-	1	2
Water and sewer	-	-	244	211	244	211
Total program expenses	1,467	1,323	244	211	1,711	1,534
<b>Change in Net Assets</b>	<b>\$ 747</b>	<b>\$ 782</b>	<b>\$ (24)</b>	<b>\$ 12</b>	<b>\$ 723</b>	<b>\$ 794</b>

### Governmental Activities

Salem Township's total governmental revenues increased over 5 percent this past year substantially due to substantial increases in gas royalties received as part of our landfill/host community fees. Gas recovery amounts grew this past year, coupled with an annual increase in the rate the Township receives, providing a 17.7 percent increase in revenues in this category. This helped offset a decline in revenue received in charges for services of \$103,000, a 50 percent deterioration due to the significant drop in building permit activity within the Township, mirroring Michigan's current economic plight. With the healthy cash reserves on hand, income from investment earnings held steady, even though interest rates had a reduction of 43 percent during the last six months of the fiscal year. Investment earnings totaled \$375,000, an increase from last year of 4.4 percent.

# **Salem Township**

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## **Management's Discussion and Analysis (Continued)**

Although there is ongoing dialogue that projections of state revenue-sharing monies could be impacted by future budget cuts, the Township continues to see steady revenue-sharing from the prior year. Additionally, income from the other main sources that contribute to the Township's revenue remained constant.

Overall, expenditures for governmental activities were up from the prior year primarily due to an investment in capital equipment for the fire department to replace outdated safety devices. Even though expenses were up, they were still almost 20 percent below budgeted estimates for the fiscal year, giving testament to the vigilant monitoring of regular expenses.

### **Business-type Activities**

Salem Township's business-type activities consist of the Sewer Fund. Sewage treatment for the Hamlet is provided through a Salem Township-owned and operated sewage treatment plant. Compared to 2007, the Township had slightly reduced revenues - \$4,000, or less than 2 percent. Expenses were greater this past year as a result of engineering studies related to evaluating storm water infiltration. As a result, the Sewer Fund had an overall decrease in net assets of \$24,000.

### **Salem Township's Funds**

The Salem Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds are the General Fund and Sewer Fund. Additionally, the Township has an Agency Fund that handles escrow monies that are administered by the Building Department.

The General Fund pays for most of the Township's governmental services. A majority of the revenue funding comes from landfill/host community fees, gas royalty fees, and state revenue sharing. The most significant expenditures are for the fire department, police services contracted with Washtenaw County, and general government services operations.

### **General Fund Budgetary Highlights**

As a result of another year of surplus funds being generated, the Township's cash resources exceed \$7,000,000. Significant additional revenues from gas royalty fees, consistent investment earnings, and stable state revenue sharing enabled the Township to surpass \$2,000,000 in received revenue for the second consecutive fiscal year.

With a reliable and consistent income stream, the Township was able to continue allocating funds for equipment upgrades for the fire department and continue to budget funds for necessary road maintenance projects. Due to the severe winter freeze and thaw, some of the Township's major roads have experienced major degradation, which is being addressed in the 2008-2009 fiscal year.



# **Salem Township**

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## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Debt Administration**

The primary assets owned by the Township are the wastewater treatment facility, land, the town hall building, and fire department vehicles and equipment.

### **Economic Factors and Next Year's Budgets and Rates**

For the upcoming year, the Township conservatively estimates expenditures of \$1.635 million including a contingency of almost \$200,000. If the income were to again attain \$2,000,000 in the next fiscal year, and the Township maintains the budgeted level of expenditures, a favorable increase of over \$350,000 could be anticipated.

In light of the current building slump throughout Michigan, the Township has adopted a financial plan that continues to subsidize the building department. The board of trustees has determined that the availability of business hours and convenience afforded to our citizens for obtaining permits, etc. outweighs the current downturn in the economy and the associated deficit that accrues in the building department supporting itself. In turn, the executive officers have enumerated alternative job assignments for staff to assist other departments on an as-needed basis.

The litigation issue surrounding the contracting of police services with Washtenaw County has been elevated to the Michigan Court of Appeals. A revised four-year contract was signed in December 2006 with a Reservation of Rights, ensuring the Township is able to maintain its legal claims while the lawsuit continues. The Township remains confident that the Court of Appeals will rule in favor of the Township regarding contract disputes on costs pertaining to police services and dismissing the countersuit of the County wherein they are seeking in excess of \$2,000,000. The Township's share of any litigation costs is 1/47, or about 2 percent, of the total. This percentage is based on deputy allocation within the plaintiff townships. This case is scheduled to go to trial in 2009.

### **Contacting Salem Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# Salem Township

## Statement of Net Assets March 31, 2008

	Governmental Activities	Business-type Activities (Sewer Fund)	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 2,132,894	\$ 712,097	\$ 2,844,991
Investments (Note 3)	4,663,975	-	4,663,975
Receivables - Net:			
Landfill	190,362	-	190,362
Customers	-	28,838	28,838
Special assessments	-	1,219,130	1,219,130
Other	84,097	-	84,097
Internal balances (Note 5)	43,246	(43,246)	-
Prepaid costs and other assets	25,776	-	25,776
Nondepreciable capital assets (Note 4)	1,764,820	259,732	2,024,552
Depreciable capital assets - Net (Note 4)	540,589	2,132,802	2,673,391
Total assets	9,445,759	4,309,353	13,755,112
<b>Liabilities</b>			
Accounts payable	19,652	6,165	25,817
Accrued and other liabilities	7,432	-	7,432
Noncurrent liabilities (Note 6):			
Due within one year	-	170,000	170,000
Due in more than one year	13,586	1,680,000	1,693,586
Total liabilities	40,670	1,856,165	1,896,835
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	2,305,409	1,001,166	3,306,575
Restricted - Village Green	2,654	-	2,654
Unrestricted	7,097,026	1,452,022	8,549,048
Total net assets	<u>\$ 9,405,089</u>	<u>\$ 2,453,188</u>	<u>\$ 11,858,277</u>

# Salem Township

	Program Revenues		
	Charges for	Operating	Capital Grants
Expenses	Services	Grants and	and
		Contributions	Contributions
<b>Functions/Programs</b>			
Primary government:			
Governmental activities:			
General government	\$ 523,591	\$ 25,775	\$ -
Public safety	606,997	4,821	-
Public works	135,658	-	-
Community and economic development	198,542	57,904	-
Recreation and culture (Village Green)	1,200	-	-
Total governmental activities	1,465,988	88,500	-
Business-type activities - Sewer	244,323	95,476	29,900
Total primary government	<u>\$ 1,710,311</u>	<u>\$ 183,976</u>	<u>\$ 29,900</u>
General revenues:			
Landfill/Host community fees			
State-shared revenues			
Interest from customer assessments			
Unrestricted investment earnings			
Franchise fees			
Miscellaneous			
Total general revenues			
<b>Change in Net Assets</b>			
<b>Net Assets - Beginning of year</b>			
<b>Net Assets - End of year</b>			

**Statement of Activities**  
**Year Ended March 31, 2008**

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (497,816)	\$ -	\$ (497,816)
(602,176)	-	(602,176)
(135,658)	-	(135,658)
(140,638)	-	(140,638)
(1,200)	-	(1,200)
(1,377,488)	-	(1,377,488)
-	(118,947)	(118,947)
(1,377,488)	(118,947)	(1,496,435)
1,283,452	-	1,283,452
380,304	-	380,304
-	60,850	60,850
375,023	33,762	408,785
49,758	-	49,758
35,503	-	35,503
2,124,040	94,612	2,218,652
746,552	(24,335)	722,217
8,658,537	2,477,523	11,136,060
<b><u>\$ 9,405,089</u></b>	<b><u>\$ 2,453,188</u></b>	<b><u>\$ 11,858,277</u></b>

# Salem Township

## Governmental Fund General Fund Balance Sheet March 31, 2008

### Assets

Cash and cash equivalents (Note 3)	\$ 2,132,894
Investments (Note 3)	4,663,975
Receivables - Net:	
Landfill	190,362
Other	84,097
Prepaid insurance	25,776
Due from Sewer Enterprise Fund (Note 5)	43,246
Total assets	<u><u>\$ 7,140,350</u></u>

### Liabilities and Fund Balances

#### Liabilities

Accounts payable	\$ 19,652
Other liabilities	7,432
Total liabilities	27,084

#### Fund Balances

Reserved:	
Prepaid expenditures	25,776
Village Green	2,654
Unreserved	7,084,836
Total fund balances	<u>7,113,266</u>

Total liabilities and fund balances	<u><u>\$ 7,140,350</u></u>
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Fund Balance - Governmental fund	\$ 7,113,266
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	2,305,409
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Compensated absences are included as a liability	<u>(13,586)</u>
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Net assets of governmental activities	<u><u>\$ 9,405,089</u></u>
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# Salem Township

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## Governmental Fund General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended March 31, 2008

### Revenue

Licenses and permits	\$ 53,733
State-shared revenues	380,304
Landfill/Host community fees (Note 7):	
Host fees	507,830
Gas royalties	732,486
Compost host fees	<u>43,136</u>

Total landfill/host community fees 1,283,452

Local sources	26,833
Interest and rentals	375,023
Other	<u>93,195</u>

Total revenue 2,212,540

### Expenditures - Categorized by budget - Current

General government	848,628
Public safety	420,662
Public works	135,741
Capital improvements	<u>118,242</u>

Total expenditures 1,523,273

**Excess of Revenue Over Expenditures/Net Change in Fund Balance** 689,267

**Fund Balance - Beginning of year** 6,423,999

**Fund Balance - End of year** \$ 7,113,266

# Salem Township

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**Governmental Fund  
General Fund**

**Reconciliation of the Statement of Revenue, Expenditures,  
and Changes in Fund Balances of Governmental Fund  
to the Statement of Activities  
Year Ended March 31, 2008**

<b>Net Change in Fund Balances - General Fund</b>	<b>\$ 689,267</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation	(70,207)
Capital outlay expenditures	128,228

Compensated absences are included as an expense	<u>(736)</u>
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<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ 746,552</u></u></b>
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# Salem Township

## Proprietary Fund Enterprise Fund - Sewer Fund Statement of Net Assets March 31, 2008

### Assets

#### Current assets:

Cash and cash equivalents (Note 3)	\$ 712,097
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#### Receivables - Net:

Customers	28,838
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Special assessments	<u>1,219,130</u>
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Total current assets	1,960,065
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Noncurrent assets - Capital assets (Note 4)	<u>2,392,534</u>
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Total assets	4,352,599
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### Liabilities

#### Current liabilities:

Accounts payable	6,165
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Due to General Fund (Note 5)	43,246
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Current portion of long-term debt (Note 6)	<u>170,000</u>
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Total current liabilities	219,411
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Noncurrent liabilities - Long-term debt - Net of current portion (Note 6)	<u>1,680,000</u>
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Total liabilities	<u>1,899,411</u>
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### Net Assets

Investment in capital assets - Net of related debt	1,001,166
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Unrestricted	<u>1,452,022</u>
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Total net assets	<u><u>\$ 2,453,188</u></u>
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# Salem Township

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## Proprietary Fund Enterprise Fund - Sewer Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2008

<b>Operating Revenue</b> - Sewage disposal charges	\$ 95,476
<b>Operating Expenses</b>	
Cost of sewage treatment	75,865
Maintenance	34,955
Billing and administrative costs	742
Depreciation	<u>68,568</u>
Total operating expenses	<u>180,130</u>
<b>Operating Loss</b>	(84,654)
<b>Nonoperating Revenue (Expenses)</b>	
Tap fees	29,900
Interest income	94,612
Interest expense	<u>(64,193)</u>
<b>Change in Net Assets</b>	(24,335)
<b>Net Assets</b> - Beginning of year	<u>2,477,523</u>
<b>Net Assets</b> - End of year	<u><u>\$ 2,453,188</u></u>

# Salem Township

## Proprietary Fund Enterprise Fund - Sewer Fund Statement of Cash Flows Year Ended March 31, 2008

### Cash Flows from Operating Activities

Receipts from customers	\$ 94,778
Payments to suppliers	<u>(105,397)</u>

Net cash used in operating activities (10,619)

### Cash Flows from Noncapital Financing Activities - Repayments to other funds

(9,472)

### Cash Flows from Capital and Related Financing Activities

Collection of customer assessments (principal and interest)	146,974
Collection of connection fees	29,900
Principal and interest paid on capital debt	<u>(235,866)</u>

Net cash used in capital and related financing activities (58,992)

Cash Flows from Investing Activities - Interest received on investments 33,762

Net Decrease in Cash and Cash Equivalents (45,321)

Cash and Cash Equivalents - Beginning of year 757,418

Cash and Cash Equivalents - End of year \$ 712,097

### Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (84,654)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	68,568
Changes in assets - Receivables	(698)
Changes in liabilities - Payables	<u>6,165</u>

Net cash used in operating activities \$ (10,619)

**Noncash Investing, Capital, and Financing Activities** - There were no noncash investing, capital, or financing activities during the year ended March 31, 2008.

# Salem Township

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**Fiduciary Fund  
Agency Fund  
Statement of Assets and Liabilities  
March 31, 2008**

**Assets** - Cash and cash equivalents (Note 3) **\$ 170,204**

**Liabilities** - Refundable deposits **\$ 170,204**

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Salem Township, Washtenaw County, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Salem Township, Washtenaw County, Michigan:

#### **Reporting Entity**

Salem Township, Washtenaw County, Michigan is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township's funds only as there are no component units which should be included in this reporting entity.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental fund:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township reports the following major proprietary fund:

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewage collection system.

Additionally, the Township reports the following fund type:

**Agency Funds** - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Township's policy is to first apply restricted resources.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Sewer building and systems	40 years
Buildings and improvements	20 years
Fire equipment	8 to 20 years
Office furnishings and equipment	5 to 10 years

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at April 1, 2007		\$ (25,787)
Current year building permit revenue		53,733
Related expenses:		
Direct costs	\$ 29,902	
Estimated indirect costs	<u>57,657</u>	<u>87,559</u>
Current year expenditures in excess of revenue		<u>(33,826)</u>
Balance at March 31, 2008		<u>\$ (59,613)</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.



### Note 3 - Deposits and Investments (Continued)

The Township has designated seven banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118; and mutual funds which are legal for direct investment by local units of government in Michigan. The Township's deposits and investment policies are in accordance with statutory authority

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$3,727,266 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. Of the \$3,727,266 of uninsured and uncollateralized deposits, \$1,125,136 is collateralized with securities held by the pledging institution's agent but not in the Township's name.

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Maturity Date
Federal Home Loan Banks	\$ 609,702	November 28, 2011
Federal Home Loan Banks	935,442	November 20, 2012
Federal Home Loan Banks	508,795	December 11, 2012

# Salem Township

## Notes to Financial Statements March 31, 2008

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Comerica investment pool	\$ 533,085	AI/PI	Moody's
Money market	588	AAA	Standard & Poor's
Sweep accounts	204,579	NR	NR
MBIA investment pool	663,004	NR	NR
JP Morgan investment pool	38,276	NR	NR
Federal Home Loan Bank	2,053,939	AAA	Standard & Poor's

### Note 4 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance April 1, 2007	Additions	Disposals and Adjustments	Balance March 31, 2008
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 1,764,820	\$ -	\$ -	\$ 1,764,820
Capital assets being depreciated:				
Buildings and improvements	93,881	18,600	-	112,481
Fire equipment	895,685	109,628	-	1,005,313
Office furnishings and equipment	94,933	-	-	94,933
Subtotal	1,084,499	128,228	-	1,212,727
Accumulated depreciation:				
Buildings and improvements	(42,354)	(5,580)	-	(47,934)
Fire equipment	(521,767)	(56,374)	-	(578,141)
Office furnishings and equipment	(37,810)	(8,253)	-	(46,063)
Subtotal	(601,931)	(70,207)	-	(672,138)
Net capital assets being depreciated	482,568	58,021	-	540,589
Net capital assets	\$ 2,247,388	\$ 58,021	\$ -	\$ 2,305,409

# Salem Township

## Notes to Financial Statements March 31, 2008

### Note 4 - Capital Assets (Continued)

	Balance		Disposals and	Balance
<b>Business-type Activities (Sewer Fund)</b>	<b>April 1, 2007</b>	<b>Additions</b>	<b>Adjustments</b>	<b>March 31, 2008</b>
Capital assets not being depreciated - Land	\$ 259,732	\$ -	\$ -	\$ 259,732
Capital assets being depreciated - Sewer buildings and systems	2,743,972	-	(1,250)	2,742,722
Accumulated depreciation - Sewer buildings and systems	<u>(542,602)</u>	<u>(68,568)</u>	<u>1,250</u>	<u>(609,920)</u>
Net capital assets being depreciated	<u>2,201,370</u>	<u>(68,568)</u>	<u>-</u>	<u>2,132,802</u>
Net capital assets	<u>\$ 2,461,102</u>	<u>\$ (68,568)</u>	<u>\$ -</u>	<u>\$ 2,392,534</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 13,833
Public safety	<u>56,374</u>
Total governmental activities	<u>\$ 70,207</u>

### Note 5 - Interfund Receivables, Payables, and Transfers

Interfund balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

### Note 6 - Long-term Debt - Sewer Fund

**Original Construction** - In May 1995, the Township, in cooperation with Washtenaw County (the "County"), approved and began construction of a sanitary sewage disposal system for individuals within the Hamlet of Salem. On May 1, 1995, the Township entered into a lease agreement with the County relating to the system. Under this agreement, the County is responsible for construction and financing of the system through a bond program with the Michigan Municipal Bond Authority. The original lease amount of \$2,255,000 is equal to the total proceeds that may be drawn by the County. The Township will pay the County semiannual amounts sufficient to pay the debt service requirements and other related costs.

# Salem Township

## Notes to Financial Statements March 31, 2008

### Note 6 - Long-term Debt - Sewer Fund (Continued)

The Township will lease the system from the County and is required to operate, maintain, repair, insure, and manage the system for the County. Ownership of the system will be transferred at no cost to the Township after the bonds have been paid in full.

As of March 31, 2008, the estimated future minimum lease payments are as follows:

<u>Years Ending March 31</u>	<u>Amount</u>
2009	\$ 133,850
2010	136,375
2011	133,788
2012	136,200
2013	133,500
2014-2017	<u>506,213</u>
Total minimum lease payments	1,179,926
Less amount representing interest	<u>(119,926)</u>
Present value	<u><u>\$ 1,060,000</u></u>

The capital lease represents the financing of public improvements that benefited a specific district; this district is specially assessed, at least in part, for the cost of the sewer improvements. At March 31, 2008, the Township had approximately \$433,000 of special assessments receivable in the future related to this project.

**2002/2003 Expansion** - In May 2002, the Township entered into an agreement with the County to expand the Township's existing sewer system. Under this agreement, the County is responsible for construction and financing of the project through a bond program with the Michigan Municipal Bond Authority. The bond was issued in May 2002 for \$1,090,000. The Township has entered into a lease agreement equal to the total proceeds that will be drawn down by the County. The Township will pay the County semiannual amounts sufficient to pay the debt service requirements and other related costs.

# Salem Township

## Notes to Financial Statements March 31, 2008

### Note 6 - Long-term Debt - Sewer Fund (Continued)

As of March 31, 2008, the estimated future minimum lease payments are as follows:

<u>Years Ending March 31</u>	<u>Amount</u>
2009	\$ 94,735
2010	92,365
2011	89,920
2012	87,400
2013	79,929
2014-2018	362,244
2019-2022	<u>241,973</u>
Total minimum lease payments	1,048,566
Less amount representing interest	<u>(258,566)</u>
Present value	<u>\$ 790,000</u>

The capital lease represents the financing of public improvements that benefited a specific district; this district is specially assessed, at least in part, for the cost of the sewer improvements. At March 31, 2008, the Township had approximately \$787,000 of special assessments receivable in the future related to this project.

### Note 7 - Landfill Agreement

In 1991, the Township entered into a host community agreement and lease with Veolia Environmental Services (Veolia), formerly Onyx North America - Arbor Hills Landfill, covering a Township-owned landfill site. The Township receives quarterly lease renewal payments in return for leasing the site to Veolia for landfill operations. In addition, the Township receives monthly payments from Gas Recovery Systems equal to 50 percent of the revenue generated from the sale of landfill gases. For the year ended March 31, 2008, host revenue and gas royalties were \$507,830 and \$732,486, respectively.

### **Note 7 - Landfill Agreement (Continued)**

In June 1996, the Township also entered into a host community agreement with Veolia covering a composting site. Total revenue for the year ended March 31, 2008 relating to this agreement was \$43,136.

State and federal laws and regulations require that a final cover be placed on the landfill site when it stops accepting waste and that certain maintenance and monitoring functions be performed at the site for 30 years after closure. Any costs associated with closure or postclosure care are the responsibility of Veolia. The Township is not responsible for closure and postclosure care costs in the event that Veolia and its parent are unable to provide for these costs and no costs in this regard are included in the Township's financial statements.

### **Note 8 - Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League Liability and Property pool program for claims relating to property, torts, errors and omissions, and workers' compensation and the Michigan Townships Participating Plan for claims relating to firefighter disability and life claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

### **Note 9 - Defined Contribution Pension Plan**

The Township provides pension benefits to certain employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment (or other date). As established by the adoption agreement, the Township contributes 10 percent of certain employees' gross earnings to the employee's account.

The Township's total payroll during the current year was \$538,072. The current year contribution was calculated based on covered payroll of approximately \$187,000, resulting in an employer contribution of \$18,717.

## **Required Supplemental Information**

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# Salem Township

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Licenses and permits	\$ 72,500	\$ 72,500	\$ 53,733	\$ (18,767)
State-shared revenues and grants	380,000	380,000	380,304	304
Landfill/Host community fees:				
Host fees	417,500	417,500	507,830	90,330
Gas royalties	600,000	600,000	732,486	132,486
Compost host fees	40,000	40,000	43,136	3,136
Total landfill/host community fees	1,057,500	1,057,500	1,283,452	225,952
Local sources	29,000	29,000	26,833	(2,167)
Interest income	229,500	229,500	375,023	145,523
Other revenue:				
Refunds and rebates	3,000	3,000	20,101	17,101
Charges for services	6,100	6,100	4,171	(1,929)
Cable television franchise	35,000	35,000	49,758	14,758
Other	14,500	14,500	19,165	4,665
Total other revenue	58,600	58,600	93,195	34,595
Total revenue	1,827,100	1,827,100	2,212,540	385,440
<b>Expenditures</b>				
General government:				
Township board:				
Salaries	25,755	25,755	24,000	1,755
Payroll taxes	1,970	1,970	1,925	45
Other	1,550	1,550	307	1,243
Total Township board	29,275	29,275	26,232	3,043
Supervisor:				
Salaries	34,249	34,249	34,249	-
Deputy supervisor	12,100	12,100	6,264	5,836
Administrative assistant	40,203	40,203	39,823	380
Payroll taxes and benefits	18,621	18,621	19,604	(983)
Supplies and others	2,350	2,350	923	1,427
Total supervisor	107,523	107,523	100,863	6,660
Clerk:				
Salaries	34,249	34,249	34,249	-
Deputy clerk	25,000	25,000	20,966	4,034
Payroll taxes and benefits	4,533	4,533	4,273	260
Printing and supplies	200	200	564	(364)
Equipment	1,000	1,000	700	300
Other	5,450	5,450	5,843	(393)
Total clerk	70,432	70,432	66,595	3,837

# Salem Township

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures (Continued)</b>				
General government (Continued):				
Treasurer:				
Salary	\$ 34,249	\$ 34,249	\$ 34,249	\$ -
Deputy treasurer	25,000	25,000	16,459	8,541
Payroll taxes and benefits	4,533	4,533	3,910	623
Tax statements	4,500	4,500	4,558	(58)
Equipment	1,000	1,000	55	945
Other	1,550	1,550	1,078	472
Total treasurer	70,832	70,832	60,309	10,523
Township hall and office:				
Salaries	9,000	9,000	6,000	3,000
Payroll taxes	689	689	190	499
Utilities	34,000	34,000	35,412	(1,412)
Equipment	3,500	3,500	1,205	2,295
Maintenance	65,000	69,461	72,699	(3,238)
Printing, postage, and supplies	28,000	28,000	26,639	1,361
Other	350	350	447	(97)
Total Township hall and office	140,539	145,000	142,592	2,408
Other:				
Election	22,265	27,715	25,894	1,821
Assessing	44,650	75,821	65,253	10,568
Zoning	70,207	72,207	70,922	1,285
Community development	116,919	116,919	82,525	34,394
Fringe benefits and insurance	69,300	69,300	56,866	12,434
Board of review	1,777	3,700	3,208	492
Board of appeals	2,020	2,020	57	1,963
Planning commission	40,708	40,708	36,548	4,160
Engineering services	5,000	5,000	4,133	867
Accounting and audit	27,080	27,080	24,103	2,977
Legal services	60,000	67,500	64,384	3,116
Other	186,692	134,187	18,144	116,043
Total other	646,618	642,157	452,037	190,120
Total general government	1,065,219	1,065,219	848,628	216,591
Public safety:				
Fire department	344,681	344,681	302,300	42,381
Police department	120,000	120,000	118,362	1,638
Total public safety	464,681	464,681	420,662	44,019

# Salem Township

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures (Continued)</b>				
Public works - Highways and streets	\$ 177,200	\$ 177,200	\$ 135,741	\$ 41,459
Capital improvements	<u>120,000</u>	<u>120,000</u>	<u>118,242</u>	<u>1,758</u>
Total expenditures	<u>1,827,100</u>	<u>1,827,100</u>	<u>1,523,273</u>	<u>303,827</u>
<b>Excess of Revenue Over Expenditures</b>	-	-	689,267	689,267
<b>Fund Balances - Beginning of year</b>	<u>6,423,999</u>	<u>6,423,999</u>	<u>6,423,999</u>	<u>-</u>
<b>Fund Balances - End of year</b>	<u><b>\$ 6,423,999</b></u>	<u><b>\$ 6,423,999</b></u>	<u><b>\$ 7,113,266</b></u>	<u><b>\$ 689,267</b></u>

# **Salem Township**

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## **Note to Required Supplemental Information March 31, 2008**

### **Note - Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end. The Township's fiscal year begins on April 1 and ends March 31. During the months of January and February, department heads are asked to provide spending requirements for the upcoming fiscal year. The clerk's department provides updated revenue and expenditure reports to enable the department heads to determine how well their expenditures are relative to the current proposed budget.

The supervisor is responsible for compiling the budget information and presenting it to the board. The treasurer assists in this process by providing revenue projections. A preliminary budget is presented to the board in February for review and input from the trustees. A public budget hearing, which is advertised in the local designated newspaper, is held in March to provide a forum for the citizens to make comments and provide their input. Subsequently, the board takes a formal vote to adopt the budget by cost centers or departments via the General Appropriations Act.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The Township did not have significant expenditure budget variances.



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July 28, 2008

To the Board of Trustees  
Salem Township

Dear Board Members:

We have audited the financial statements of Salem Township for the year ended March 31, 2008 and have issued our report thereon dated July 28, 2008. We continue to be impressed with the condition of the financial records when we complete our audit and appreciate the time and effort that the Township staff spends with us during the audit process. Professional standards require that we provide you with the following information related to our audit.

#### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated January 30, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Salem Township. Our consideration of internal controls was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

#### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters dated May 19, 2008.

#### **Significant Audit Findings**

##### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Salem Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007.

We noted no transactions entered into by Salem Township during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant accounting estimates noted in the current year.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Journal entries made by us all related to GASB 34 accrual changes. Management has agreed with all entries. There were no misstatements that required correction by us.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated July 28, 2008.

### ***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

In the normal course of our professional association with the Township, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Township, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Township's auditors.

This information is intended solely for the use of the board of trustees and management of Salem Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Michael J. Swartz", with a large, stylized loop at the end.

Michael J. Swartz

A handwritten signature in black ink, appearing to read "Wendy Trumbull", written in a cursive style.

Wendy N. Trumbull